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SUBJECT: CONFESSIONS OF VLADIVOSTOK USED CAR SALESMEN

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¶1. Summary. The famous Vladivostok marketplace for used foreign cars called Zelyoniy Ugol ("Green Corner") has been experiencing a serious downturn in recent months. New customs tariffs, banks' reluctance to provide consumer credit for car purchases, and the slumping value of the ruble have conspired to slow business at the market to a near standstill. The market's downturn is an example of how the economic slowdown has taken its toll on the regional economy. The auto dealers Econ Officer and FSN spoke to are pessimistic about their future and stated they would pack up shop if they could only get rid of their inventory.

One-Bustling Market Now Dormant

¶2. With its 10,000-car lot, Zelyoniy Ugol is still the largest open-air used car market in Russia, and has provided steady income for thousands of entrepreneurs. It has been in existence since 1993, and has evolved from a wild and chaotic market in early 1990s into a well-organized car-dealer community with paved roads, fenced sales lots, ancillary auto-related businesses, and its own website. The market has been popular and well-known throughout Russia, and has served as the main source of automobiles for the Russian Far East and Siberia for over a decade.

¶3. Dealers there were very talkative to Consulate staff, voicing complaints about the precipitous decline in business since December. One dealer mentioned that in the best times he was selling at least 10 cars per month, mainly to car dealers from Siberia who would then ship them or arrange for drivers to take them back. Nowadays, there are no purchasers from the interior, and local visitors are few and few between. In fact, by noon the Consulate staff members were the only visitors the dealer had seen that day. One dealer complained that he and his partners have not sold a single car since December. Another mentioned that only 900 cars have been delivered to Vladivostok during the first four months of the year, though previously thousands cars arrived every month.

¶4. Many of the businesses to support the trade of cars to Siberia -- shipping companies, drivers, and even roadside eateries on the way to Baikal and points further away, have gone out of business. All of the dealers Econ Officer talked to waxed nostalgic for the prosperous years, when Siberian car dealers arrived in Vladivostok, mostly via the two daily flights from Novosibirsk. Shoppers arrived from as far as western Russia and the Caucasus republics, making such long trips to purchase used Japanese car at one third the price of cars assembled in Russia.

Three Main Reasons for Slow-Down

¶5. The main reason for the lack of customers is that banks are

now unwilling to lend money to consumers for automobile purchases. Secondly, car importers buy most of their stock in Japan and pay in yen. The weakening ruble coupled with the continued strength of the yen have made the purchase of the cars much more expensive for the dealers. Japanese-brand, U.S.-made cars are the second most popular at the market, but the weak ruble has made not only their purchase, but also shipping more expensive.

¶6. The recent import duty increase has also made foreign vehicles more expensive. Though this issue has taken center stage and has proved a catalyst for recent anti-government demonstrations in the Russian Far East, the dealers at Zelyoniy Ugol did not place it at the top of their complaint list. Most of the unsold cars on their lots were imported before the increase. Even so, all dealers spoke critically about Putin's protection measures for Russian auto producers and the Kremlin's indifference to the needs of RFE residents, and were convinced that the measures will not spur consumption of domestic vehicles. Only better quality at lower prices will help, they said.

¶7. All of the dealers were skeptical that the 'temporary' tariff increase will be phased out in October as officially stated. A Consulate contact, however, said the tariff likely will be discontinued, since the resultant drop in imports has cost the federal budget USD one billion in lost revenue.

Ban on Right-Hand Drive to Mean More US Cars?

¶8. Some car dealers voiced concern about a move away from increased tariffs on Japanese cars to an outright ban on right-hand drive vehicles, though others are in a better position for such a change. Some have already turned to the U.S. market, purchasing used, U.S.-produced Japanese models. One dealer stated that he purchases high end cars on eBay and

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ships them to Vladivostok via Los Angeles in 40-foot containers. Each container costs USD 6,000 to ship, and can hold four sedans or three SUVs. Though the shipping cost is considerably higher than the USD 300 cost per car from Japan, the dealer explained that left-hand drive vehicles are unusual in Vladivostok and fetch a premium. This dealer used the example of Lexus SUVs to illustrate how the increased customs fees have hurt his business. The first Lexus imported in December just before the increase required a 12,000 USD customs payment, while a similar vehicle shipped a mere month later incurred a USD 24,000 customs fee.

Around Tariffs -- Subsidies and 'Konstruktors'

¶9. To offset the increased cost of Japanese imports, the federal government has introduced two programs. One is to subsidize consumer loans for Russian-built automobiles, and the other is to subsidize the shipping of such cars from their factories in western Russia to the Far East. Potential buyers, however, refuse to buy Russian-made cars -- even those of foreign brands -- because of their perceived lack of quality and higher price. In fact, according to the Rossiskaya Gazeta, no one in Primorye has yet applied for the privileged car loan, and very few cars have been shipped by railroad under the subsidy. The paper reports that the few people who bought Russian Ladas recently did so with the intention to use them for hunting in forests or for fishing in remote areas, not as their everyday vehicle.

¶10. One way around the tariffs was to assemble 'konstruktors.' Dealers purchased used cars in Japan, cut the bodies in two, and import them as 'spare parts' with a much lower tariff. The car would then be welded together in Russia and resold. This business had been popular until authorities slapped a 5,000 Euro charge on car bodies, whole or in pieces.

Comment

¶11. Though the increase in tariffs on imported autos has had a dramatic effect on the used car market in the Russian Far East, the difficulty for consumers to get financing has been an even larger blow. It is too early to tell if the measures will increase sales for Russian-produced cars, since the economic crisis has likely taken a toll on sales on all cars, domestic or foreign. In any case, the current tariffs will be in effect until at least October. By that time, according to many of the dealers at the market, most of the sellers will likely have left the business.

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